

## **AUDIT SUMMARY**

Our audit of the Department of Mines, Minerals, and Energy for the years ended June 30, 1999 and 1998, found:

- Proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- No internal control matters that we consider to be material weaknesses; and
- No instances of noncompliance required to be reported.

June 1, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Mines, Minerals, and Energy** for the years ended June 30, 1999 and 1998. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining an internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transaction on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System except for information on performance bonds not deposited with the Treasurer of Virginia that came from the Department's performance bond tracking system.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 12, 2000.

AUDITOR OF PUBLIC ACCOUNTS

JEG:jld  
jld:26

## FINANCIAL HIGHLIGHTS

The Department of Mines, Minerals and Energy enforces federal and state laws and regulations governing the extraction of coal, oil, gas, and other minerals. Through its six divisions, the Department regulates the mineral industry, provides mineral research, and offers advice on the wise use of resources.

The Division of Energy focuses on increasing efficiency in state government operations, promoting cost effective renewable energy resources for state applications, improving the energy efficiency of primary and secondary schools, and promoting the economic development of Virginia's indigenous energy resources.

The Division of Gas and Oil is responsible for regulating the effects of gas and oil operations both on and below the surface, issuing permits, client assistance programs, inspection of well sites and gathering pipelines, reclamation of abandoned well sites, protection of correlative rights, and promotion of resource conservation practices.

The Division of Mined Land Reclamation is responsible for ensuring the reclamation of land affected by surface and underground coal mining activity. Major functions include regulating surface effects of coal mining, reclaiming abandoned mine lands, issuing permits, performing inspections, assisting small operators, and responding to citizen issues.

The Division of Mineral Mining provides for the safe and environmentally sound production of Virginia non-fuel minerals. The Division administers both health and safety, and surface mining reclamation regulatory programs for all non-coal mineral mining operations.

The Division of Mines protects the lives and health of all people employed at surface and underground coal mining operations and insures mine operator compliance with mine safety requirements. The Division performs regular mine inspections, investigates accidents and fatalities, conducts training and certification of miners, and provides technical assistance to mine operators.

The Division of Mineral Resources serves as the primary resource for accurate, timely, and objective information on Virginia's geology, mineral resources, and geological hazards. The Division conducts geological studies in support of economic development to preserve the health and safety of the citizens of Virginia.

### Financial Information

The following selected financial information for the Department is summarized from the Commonwealth Accounting and Reporting System. Transfers to the Special Fund from Agency and Expendable Trust Funds are not included in the revenues.

	<u>Fiscal Years Ended June 30,</u>	
	<u>1999</u>	<u>1998</u>
Revenues:		
General fund appropriation	\$10,641,124	\$10,246,731
Special fund:		
Federal grants	11,006,434	9,409,305
Permits, licenses, forfeited bonds, and other	<u>3,214,686</u>	<u>2,055,521</u>

Total revenues	<u>\$24,862,244</u>	<u>\$21,711,557</u>
Expenses:		
Salaries and fringe benefits	\$13,645,645	\$12,692,005
Contractual services	6,540,167	5,570,952
Supplies and materials	359,194	347,948
Equipment, property management and other	<u>3,625,372</u>	<u>3,730,548</u>
Total expenses	<u>\$24,170,378</u>	<u>\$22,341,453</u>
Unused general fund appropriation subject to reappropriation	<u>\$ 17,769</u>	<u>\$ 140,172</u>
Agency and expendable trust funds held by the Treasurer of Virginia	<u>\$ 8,101,562</u>	<u>\$ 8,873,192</u>

#### Performance Bonds

Mine and well operators must post performance bonds as guarantee to return lands to their original condition and state of use. Performance bonds were comprised of the following as summarized from the Commonwealth's Accounting and Reporting System for bonds held by the Treasurer of Virginia and from the Department's performance bond tracking system for bonds held by the Department.

	<u>Fiscal Years Ended June 30,</u>	
	<u>1999</u>	<u>1998</u>
Cash bonds deposited with the Treasurer of Virginia	\$ 2,092,034	\$ 1,884,610
Held by the Department:		
Certificates of deposit	3,015,100	3,107,333
Surety bonds	255,989,443	253,785,383
Letters of Credit	<u>3,872,000</u>	<u>720,700</u>
Total revenues	<u>\$264,968,577</u>	<u>\$259,498,026</u>

DEPARTMENT OF MINES, MINERALS AND ENERGY

Big Stone Gap, Virginia

Richmond, Virginia

OFFICIALS

O. Gene Dishner, Director

Charles M. Hale, Chief Deputy Director

Benny R. Wampler, Deputy Director for Regulatory Services

Stephen A. Walz, Division Director  
Division of Energy

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Division of Mineral Mining

Frank A. Linkous, Mine Division Chief  
Division of Mines

Stanley S. Johnson, Commissioner and State Geologist  
Division of Mineral Resources

Acting Director  
Division of Mined Land Reclamation

M. Frank Hampton, Jr., Fiscal Director  
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